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SUBJECT: Chinese XAC to Buy Austria's Leading Aviation Technology
Company FACC

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Sensitive but unclassified; protect accordingly.

11. (SBU) SUMMARY: Chinese XAC will take over FACC, Austria's leading enterprise for the development/design and production of composite components and systems for civil aircraft. FACC supplies major civil aircraft manufacturers including Airbus, Boeing, Bombardier, and Pratt & Whitney. A takeover of FACC had been rumored for some time because of the company's strained financial situation (reportedly due to the strong Euro and delays in A380 production). Given the high-tech nature and sensitivity of FACC's products and the firm's importance as supplier to U.S. aeronautics industries, the Chinese takeover may have a significant impact on trade in that sector. END SUMMARY.

12. (U) On October 3, news broke that the Chinese Xi'an Aircraft Industry Company/XAC signed an agreement for the takeover of 91.25% of the shares of FACC (formerly Fischer Advanced Composite Components), Austria's leading aircraft supplier and based in Ried, Upper Austria. Remaining FACC shares will continue to be held by the Austrian holding company ACC Kooperationen und Beteiligungen (5%) and Stephan GmbH (3.75%). The takeover is subject to the usual regulatory approvals, but is expected to be finalized by the end of 12009. After the deal closes, XAC plans to increase FACC's EUR 40 million share capital by at least another EUR 40 million. XAC reportedly committed to keep the company name and its facilities in Ried, including employment there. NOTE: Shareholder structure before the deal: Salinen Austria (48.125%), ACC Kooperationen (48.125%) and Stephan GmbH (3.75%). The principal shareholders of Salinen (Austria's former state monopoly for the production and distribution of salt) are Raiffeisenlandesbank Upper Austria and former Finance Minister Hannes Androsch. In mid-2008, ACC took over the shares of the Fischer family (best known for its ski equipment).

13. (U) FACC, founded in 1989, is a high-tech manufacturer specializing in the development, design and production of advanced fiber reinforced composite components and systems for commercial aircraft and business jets, including aircraft interiors, structural body components, wing and fuselage components and systems, and engine / engine housing components and systems. FACC has 1,600 employees and annual sales of about EUR 265 million; its export quota is 99.8%. FACC does important R&D work and has a customer support branch (FACC Solutions Wichita) in Wichita, Kansas.

14. (U) FACC supplies all major Western aircraft manufacturers, including Airbus, Bombardier, and EADS Military Air Systems, Boeing, BAE Systems, Goodrich Aerostructures, Pratt & Whitney, Spirit Aerosystems, and Vought Aircraft Industries. FACC was involved in the development programs for the Airbus A380, the A350 XWB and the Boeing 787 Dreamliner. In March 2009, FACC delivered the first wing

components for the new Boeing 747-8, and FACC supplies the Articulated Cove Panels for that aircraft. Together with eight partners, FACC developed various A380 components (including overhead stowage compartments, flap track fairings, flap ribs, and engine components). In June 2009, FACC formed an industrial partnership and signed a supplier agreement with Mubadala Development Company (UAE). Pursuant to this agreement, FACC will support Mubadala in building its composite plant Strata Manufacturing in Abu Dhabi and transfer composite aerostructures manufacturing programs to it.

15. (SBU) A sale of FACC by its main shareholders had been rumored for at least two years because of the company's shaky financial situation: FACC posted losses for several years (reportedly due to dollar weakness and A380 delays) before showing a balanced result in 2008. Despite a EUR 10 million equity increase in mid-2008 (to EUR 40 million), FACC still has a thin equity base in relation to its reported medium/long-term investment needs of EUR 20 million; Austrian shareholders were reportedly unable and/or unwilling to supply fresh equity. Originally, FACC was looking for a strategic partner, but interested parties wanted a complete takeover.

16. (U) We understand XAC is among China's largest aviation manufacturers and considered one of its foremost high-tech enterprises with integrated research and production expertise in developing and manufacturing large and medium-sized airplanes.

COMMENT
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17. (SBU) One of the parties interested in October 2007 was the U.S. firm Spirit Aerosystems, but the deal did not materialize (for undisclosed reasons). Given the high-tech nature and sensitivity of the products FACC develops and produces and its interconnections throughout the aircraft industry, this sale could accelerate

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technology transfer to China and speed the rollout of China's next generation airliners. Embassy is not in a position to assess whether XAC would be susceptible to PRC Government influence. FACC is not Lockheed, but it does have some first-rate technology to share. END COMMENT.

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